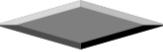


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**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION**

**MINUTES OF MEETING**

**Wednesday, December 15, 2010**

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The Board of Administration met on Wednesday, December 15, 2010 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:03 a.m. and the following members were present:

Rob Feckner, President  
George Diehr, Vice President  
Terry McGuire for John Chiang  
Patricia Clarey  
Greg Beatty for Debbie Endsley  
JJ Jelincic  
Henry Jones  
Grant Boyken for Bill Lockyer  
Priya Mathur  
Louis F. Moret  
Tony Oliveira

Board of Administration Members excused: Dan Dunmoyer.

Patricia Clarey introduced Richard Costigan, the new State Personnel Board representative to the CalPERS Board effective January 2011.

The CalPERS holiday choir performed a selection of songs for the Board.

**AGENDA ITEM 3 – APPROVAL OF NOVEMBER 2010 MEETING MINUTES**

On **MOTION** by Priya Mathur, **SECONDED** by Greg Beatty, and **CARRIED** that the November 17, 2010 Open Session minutes be approved as presented.

**AGENDA ITEM 4 – CHIEF INVESTMENT OFFICER'S REPORT**

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- For the eleven months through November, the Total Fund produced a 9.35 percent return.
- As of Monday, December 13, the Total Fund value was \$220 billion.
- The Investment Office will maintain four of the five strategic priorities from the 2010 road map in the 2011-2012 road map: risk management; capital allocation; cost effectiveness; and organization systems and controls. Talent management and improving investment performance have also been added.

## **AGENDA ITEM 5 – INVESTMENT COMMITTEE**

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, December 13, 2010.

Additional information may be found in the December 13, 2010 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for February 14, 2011 in Sacramento, California.

## **AGENDA ITEM 6 – AD HOC RISK MANAGEMENT COMMITTEE**

Tony Oliveira, Chair, Ad Hoc Risk Management Committee, presented the Committee Summary report to the Board. The Committee met on Wednesday, December 15, 2010.

Additional information may be found in the December 15, 2010 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Ad Hoc Risk Management Committee is scheduled for February 14, 2011 in Sacramento, California.

## **AGENDA ITEM 7 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE**

George Diehr, Vice President, presented the Benefits and Program Administration Committee Summary report to the Board. The Committee met on Tuesday, December 14, 2010.

Additional information may be found in the December 14, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Sponsoring legislation to combine levels 1, 2, and 3 of the 1959 Survivor Program for Public Agencies into a new pool paying current level 3 survivor

benefit and suspending the \$2 monthly employee premium if the Board determines the combined pool is running a surplus in excess of 200 percent of the total liabilities of the pool.

- Sponsoring legislation to make minor policy and technical amendments to the Public Employees Retirement Law (PERL) as outlined in Agenda item 3b of the Committee meeting.
- Acceptance of the EFI report on the June 30, 2009 parallel valuation and certification of the actual valuation of the State and Schools plans in completion of Task 2 of Contract 2009-5377.

On **MOTION** by Committee and **CARRIED** with one nay vote, the Board approved the following:

- Adoption of the following new employer contribution rates for the State plans effective January 1, 2011.

<b>State Plan</b>	<b>Employer Contribution Rate for Pay Periods Between January 1, 2011 and June 30, 2011</b>
State Miscellaneous Tier 1	17.528%
State Miscellaneous Tier 2	16.442%
State Industrial	14.683%
State Safety	15.702%
State Peace Officers & Firefighters	28.556%
California Highway Patrol	29.956%

- Publication of the proposed amendments to clarify and make specific the requirements for publicly available pay schedules and labor policy or agreements per Attachment A of Committee materials.

A member of the public, Donna Snodgrass, Vice President, California State Employees Association, asked for clarification on the requirements for publicly available pay schedules as outlined in Attachment A. Lori McGartland, Chief, Employer Services Division, provided that clarification.

The next meeting of the Benefits and Program Administration Committee is scheduled for February 15, 2011 in Sacramento, California.

Patricia Clarey recused herself from the Health Benefits Committee report and left the room at this time.

## **AGENDA ITEM 8 – HEALTH BENEFITS COMMITTEE**

Priya Mathur, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 14, 2010.

Additional information may be found in the December 14, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- Acceptance of the Long-Term Care Program 2010 Valuation Annual Report.

The next meeting of the Health Benefits Committee is scheduled for February 15, 2011 in Sacramento, California.

Patricia Clarey returned to the room at the conclusion of the Committee report and vote.

## **AGENDA ITEM 9 – FINANCE COMMITTEE**

Henry Jones, Chair, Finance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 14, 2010.

Additional information may be found in the December 14, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Agenda Item 6a - Fiscal Year 2010-11 Mid-Year Budget revisions:
  1. A one-time decrease in FY 2010-11 Administrative Budget of \$15,465,000 and an increase of 13.0 additional positions, funded internally, for a total revised Administrative Budget of \$315,731,000 and 2,330 positions as a second reading.
  2. The proposed FY 2010-11 Mid-Year increase of \$15,465,000 to the Enterprise Projects Budget for a total budget of \$36,681,000 as a second reading.
  3. The proposed FY 2010-11 cost allocation adjustments to the Public Employees' Retirement Fund and other funds as a second reading.
  4. Transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and

the Department of Finance, in accordance with the Budget Act of 2010, and to the Legislative Analyst's Office and the State and Consumer Services Agency.

- Approval of the transmittal letter and submission of the Budget and Expenditure Report through the first quarter of FY 2010-11 to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2010, and to the Legislative Analyst's Office, State and Consumer Services Agency and the Office of the Legislative Counsel.
- Approval of the proposed February 2011 agenda with the addition of the CalPERS Ethics Helpline Report per recommendation from the Chair.

The next meeting of the Finance Committee is scheduled for February 15, 2011 in Sacramento, California.

#### **AGENDA ITEM 10 – AD HOC BOARD GOVERNANCE COMMITTEE**

The Committee did not meet in December.

JJ Jelincic recused himself from the following Committee report and left the room.

#### **AGENDA ITEM 11 – PERFORMANCE AND COMPENSATION COMMITTEE**

Patricia Clarey, Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 14, 2010.

Additional information may be found in the December 14, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- The 2010-2011 performance plans for the three recently appointed Portfolio Managers, as a second and final reading.
- The establishment of a civil service classification for the Chief Financial Officer, and approval of staff pursuing legislation to amend Government Code 20098 to add the Chief Financial Officer.
- Deferral of awarding contracts for Executive Compensation Consultant pending finalist interviews.

The next meeting of the Performance and Compensation Committee is scheduled for February 14, 2011 in Sacramento, California.

JJ Jelincic returned to the room at the conclusion of the Committee report and vote.

## **AGENDA ITEM 12 – BOARD MEETING CALENDAR**

No changes were made to the Calendar.

## **AGENDA ITEM 13 – CHIEF EXECUTIVE OFFICER’S REPORT**

Anne Stausboll reported on the following items:

- Important accomplishments for 2010:
  - Adoption of new Risk-focused Asset Allocation that resulted in a 13.3 percent investment return for the fiscal year ending June 30, 2010.
  - Financial market reforms giving a great voice to investors and regulating placement agents.
  - Reduction of \$300 million in money manager fees over the next few years, and a web-based system for money managers to submit proposals.
  - Launch of the Public Employee Compensation and Benefits Task Force to mitigate abuses of the system.
  - Employer and member education through retirement dialogues and webinars.
  - Established a senior level enterprise risk management office.
  - Launched new ethics helpline to identify fraud and waste.
  - Increased transparency policies for CalPERS and its contractors.
  - Launch of CalPERS Responds website and organization-wide green initiative.
  - Realignment of CalPERS business plan, performance objectives and budgeting process as well as organizational structure.

Ms. Stausboll recognized the management team and all staff at CalPERS who were responsible for these accomplishments.

- In the coming year, CalPERS will focus on implementation of employee benefits changes that were bargained at the state level, continue collaboration with constituents to preserve defined benefit plans, seek legislation to close loopholes that allow abuse of the system, more fully implement its enterprise risk management strategy, and launch the my|CalPERS system. A new CFO position will improve financial management.

- The January Board meeting will be held offsite on January 19 through 21 at the Best Western in Monterey. Members of the public are welcome to attend the open sessions.

#### **AGENDA ITEM 14 – PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE**

Dale Jablonsky, Assistant Executive Officer, Information Technology Division, introduced Karen Ruiz, PSR Project Manager, who presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- The project team met the final two performance measures for the November 30<sup>th</sup> milestone.
- The Judges' and Legislators' Retirement Systems have been moved into a second formal release.
- The project team has developed a path forward that formally adds in the needed scope for the go-live, and finalizes the remaining project in three formal releases with a full system warranty.
- Final work is underway to assist employers in preparing for the transition.

John Nichols, Project Manager, Accenture, provided some highlights of the progress on the recovery effort:

- In December, the last 5 percent of the scripts from the system testing will be closed out.
- In January and February, the scripts will be run for the record. Also, the project team will launch into integration testing between my|CalPERS and PeopleSoft.
- Stress and load testing will be performed over the next few months.

Chris Jasper, KPMG, Project Oversight, generally concurred with the project status report and remains cautiously optimistic that the application will be sufficiently prepared to start end-to-end testing in the very near future.

On **MOTION** by Priya Mathur, **SECONDED** by Henry Jones and **CARRIED**, the Board approved the following:

- An 11-month extension of the term of the PSR agreement to September 13, 2013.

## **AGENDA ITEM 15 – ORGANIZATIONAL STRUCTURE AND PROCESS INITIATIVE UPDATE**

Donna Lum, Assistant Executive Officer, Member and Benefit Services Branch, provided an update on the Organizational Structure and Processes Initiative and reported on the following:

- Staff continue to be engaged enterprise-wide through focus groups, interviews and workshops to solicit feedback on the organizational design. A Leadership Town Hall meeting was held November 29 where the organizational health survey was discussed in detail.

## **AGENDA ITEM 16 – DIVERSITY UPDATE**

Lindy Plaza, Chief Diversity Officer, Internal Operations, provided an update and reported on the following:

- In November, CalPERS concluded its 2010 enterprise-wide diversity and inclusion pulse survey.
- Education and outreach efforts continue, and CalPERS is in compliance with its internal policies as well as with State law. Diversity and inclusion components have been added to existing employee and leadership training programs and have been presented in a wide variety of diversity and inclusion events, forums and webinars.
- Ms. Plaza was recently selected to be a member of a national task force by the Society of Human Resource Management tasked to lead a national effort in creating standards and measures for diversity and inclusion.
- CalPERS 2009-10 annual Commitment to Diversity report is due to be distributed in the next quarter.
- CalPERS Business Connection participated in two outreach events that reached nearly 1,000 Small and Disabled Veteran businesses. CalPERS new marketing brochure was distributed and well received at these events.
- CalPERS is requesting from the Department of General Services (DGS) an exclusion from Government Code 11342.61 as it relates to investment advisors that provide services that cannot be subcontracted out to small businesses.
- An education module on disability sensitivity training is being developed for managers and supervisors.

Gina Ratto, Deputy General Counsel, provided an update and reported on the following:

- The Legal Office is proceeding with its plan to establish outside counsel pools in the specialty practice areas that can expand the diversity of outside counsel. Currently pending is a solicitation for labor and employment law counsel.

Tim Legesse, Investment Officer, provided an updated and reported on the following:

- A white paper sponsored by the National Association of Investment Companies (NAIC) examined best practices common to those implemented by CalPERS, CalSTRS and New York Common Retirement Fund.
- Outreach activities during the past quarter include attendance at the Association of Asian American Investment Manager conference in October, the Latina Economic Summit hosted by New America Allegiance, and A Day at CalPERS.

Mr. Legesse presented a slide presentation detailing, by fund, Investment Office activities and progress related to diversity.

#### **AGENDA ITEM 17 – CALPERS ETHICS HELPLINE REPORT**

Sherry Johnstone, Chief Compliance Officer, provided an update and reported on the following:

- For the period from October 15 through November 15, the Office of Enterprise Compliance received nine reports. For the cumulative period of September 13 through November 15, a total of 21 reports were received. Reports continue at an average of about two to three reports per week.
- The majority of issues reported continue to be allegations of pension spiking and retirement benefits fraud. There were some related to areas of human resources, legal, and accounting and auditing.
- A protocol has been developed for escalation of any complaints regarding Board members or Board-reportable staff to the Board President.

#### **AGENDA ITEM 18 – EXTERNAL AFFAIRS UPDATE**

Patricia Macht, Director, External Affairs, provided an update on External Affairs and reported on the following:

- The January Board offsite meeting will conduct panel discussions on the post-election landscape for the State and federal arenas. A panel of national experts on retirement security will comprise another panel.

## **AGENDA ITEM 19 – BOARD’S STATE LEGISLATIVE PROGRAM/BOARD’S POSITION ON STATE LEGISLATION**

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following.

- Assembly Member Portantino has reintroduced a salary freeze bill, both as a regular session bill, AB 7 and as a special session bill, ABX 11. This bill would prohibit State employees who receive more than \$150,000 from receiving a raise until after January 1, 2014.
- Assembly Member Mike Davis has reintroduced his bill that would require CalPERS and CalSTRS to report on the ethnicity and gender of contracted external brokerage firms.
- Senator Joe Simitian has reintroduced his version of the anti-spiking bill, SB 27.
- Senator Ed Hernandez has been named Chair of the Senate Health Committee.
- CalPERS continues to work with the Fair Political Practices Commission (FPPC) and the Secretary of State on the implementation of the placement agent bill.

## **AGENDA ITEM 20 – BOARD’S FEDERAL LEGISLATIVE PROGRAM/BOARD’S POSITION ON FEDERAL LEGISLATION**

Tom Lussier, CalPERS Federal Liaison provided updates on federal legislation and reported on the following:

- The President’s Debt Commission completed its work as of the 1<sup>st</sup> of December. While the Commission failed to secure the super majority vote required for a formal report, the significant components are expected to become part of the 2011 legislative dialogue. Of particular interest are those provisions that might affect tax deductions that currently apply to retirement contributions or that might amend the Social Security law, such as a mandate of Social Security on all State and local employees.
- CalPERS efforts to effectively implement key provisions of the Affordable Care Act have been widely acknowledged by the Administration and members of Congress.
- Congressman Nunes from California has filed what is called the Public Employee Pension Transparency Act, which would require public pension funds to file detailed annual reports with the U.S. Treasury Secretary using a methodology that calculates plan liabilities using a risk-free discount rate.

## AGENDA ITEM 21 – PUBLIC AFFAIRS UPDATE

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs.

- On December 7, CalPERS held a live webinar featuring Deputy Chief Actuary David Lamoureux that was attended by approximately 400 employer representatives.
- On December 9, a live webcast featured Chief Investment Officer Joe Dear and Geraldine Jimenez of Affiliate Investment Programs that was attended by about 466 individuals.
- On January 1, a new web section will be introduced that includes access to financial reports, fees paid to management consultants and vendors and employer audits, and employer contribution rates.

## AGENDA ITEM 22 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 22A through 22G.

Mr. Mixon explained that the new format no longer includes a staff recommendation on the proposed decision page. Proposed decision is Attachment A, staff argument is Attachment B, and respondent's argument is Attachment C.

Mr. Mixon also recommends the Board consider having an independent advisor during the presentation of these items.

Ms. Mathur requested that 22D and 22E be considered separately.

Vice President Diehr requested that 22F be considered separately.

On **MOTION** by Priya Mathur, **SECONDED** by Henry Jones, and **CARRIED**, the Board approved adopting as its own the proposed decisions of Administrative Law Judges for 22A, 22B, 22C, 22G.

On **MOTION** by JJ Jelincic, **SECONDED** by George Diehr, and **CARRIED**, the Board approved adopting as its own the proposed decision of Administrative Law Judge for 22D effective 30 days after mailing and that the decision will not be adopted as precedential.

On **MOTION** by Priya Mathur, **SECONDED** by Lou Moret, and **CARRIED**, the Board approved adopting as its own the proposed decision of Administrative Law Judge dated September 22, 2010 for 22E effective 30 days after mailing of this decision.

On **MOTION** by George Diehr, **SECONDED** by Priya Mathur, and **CARRIED**, the Board approved rejecting the proposed decision of the Administrative Law Judge for 22F and referring the matter back to the Administrative Law Judge for the taking of additional evidence.

#### **AGENDA ITEM 23 – GENERAL COUNSEL’S REPORT**

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

#### **AGENDA ITEM 24 – BOARD TRAVEL APPROVALS**

On **MOTION** by George Diehr, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved the Board travel.

#### **AGENDA ITEM 25 – DRAFT AGENDA FOR February 16, 2011 MEETING**

No comments.

#### **AGENDA ITEM 26 – NEW BUSINESS AGENDA SETTING**

No requests.

#### **AGENDA ITEM 27 – PUBLIC COMMENT**

No public comment.

There being nothing further to come before the Board of Administration, the meeting adjourned at 12:45 p.m.

The next Board of Administration meeting is scheduled for February 16, 2011 in Sacramento, California.

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ANNE STAUSBOLL  
Chief Executive Officer